

THURSDAY, OCTOBER 10, 2008

*Two Men—Soft-Spoken CEO  
And an Exchange Veteran—  
Sacor Chicago Merc's Triumph*

By **ARON LUCCHETTI**  
And **SUSAN CAREY**

**T**HE WORLD'S LARGEST financial exchange soon will be in the hands of a soft-spoken 44-year-old lawyer who enjoys an uncommon form of tennis, and a 73-year-old former trader who is known as the father of financial futures.

Although many were involved in the extraordinary deal, announced Tuesday, to combine Chicago Mercantile Exchange Holdings Inc. and Chicago Board of Trade parent CBOT Holdings Inc. into the world's biggest financial market, it was a singular victory for these two men: Craig Donohue is the Chicago Merc's chief executive officer and will head the new CME Group Inc. Leo Melamed is a CME board member who many consider a power behind the throne of that storied futures exchange. He will be a senior member of the new company's board.



Craig Donohue

By agreeing to buy CBOT Holdings for stock and cash valued at about \$8 billion, the two men are creating a combined exchange that could dominate world-wide trading of a range of futures contracts, options and other derivatives based on the value of everything from corn to the Dow Jones Industrial Average.

If the deal is approved by regulators and shareholders, Messrs. Donohue and Melamed will help oversee trillions of dollars of trading a year that is becoming ever more important in managing risks in hedge funds, mutual funds, pension plans, endowments and other portfolios.

Then still in his 20s, Mr. Donohue joined CME in 1989 from the firm of McBride, Baker & Coles, where he practiced corporate law. He became director of market regulation at the CME in the 1990s, then general counsel, then chief administrative officer. He got the top job in 2004 after his predecessor—who had transformed the membership club to a publicly traded company two years earlier—ranked floor traders with a hefty pay package and a spate of management changes.

Mr. Donohue plays golf and platform tennis, a combination of racquetball and tennis. In a 2004 alumni profile for the Kellogg School of Management at Northwestern University, where he received an M.B.A., Mr. Donohue said he balanced 12-hour work days with raising three kids along with his wife, a fellow Northwestern grad. In the profile, he joked that classmates saw him as some-

one who thought of work "23 hours a day."

To critics, Mr. Donohue is more an operator than a visionary, especially when compared with former CME leaders. But he is no lightweight: He is credited with negotiating a deal earlier this year that got the Chicago Merc a piece of the increasingly lucrative oil market. The agreement allows the New York Mercantile Exchange's crude contracts to trade electronically on the CME's systems. Mr. Donohue has also pushed to expand into exotic new products, including corporate credit derivatives and futures tied to changes in the weather.

From Mr. Donohue's early days as chief, investors were impatient for him to use the company's richly valued stock to expand. "They criticized him for not doing a deal," said Richard Herr, an analyst at Keefe, Bruyette & Woods who yesterday upgraded his rating on CME stock to "buy" from "hold."

In an interview yesterday, Mr. Donohue outlined big plans for expanding into derivatives in other markets. "We're very well-positioned for that," he said. Analysts see opportunities for the combined exchanges to expand operations in Asia, where it already has alliances with

exchanges in Singapore and China. Europe might be less attractive, because that market is already dominated by Euronext and Deutsche Börse.

Mr. Melamed, a fixture at the CME since 1953, was instrumental in picking Mr. Donohue for the CEO post, according to former Merc executives. "Fortunately, the board followed my opinion and suggestions," Mr. Melamed said in an interview yesterday.

While still in law school, Mr. Melamed joined the Merc as a part-time runner on its historic floor, where frenzied traders bark orders over a constant din. He rose to become chairman of the institution, from 1969 to 1978. In the 1970s, he helped pioneer the concept of selling contracts based on the future value of foreign currencies—among the first futures based on something other than the value of a commodity, such as wheat or oil. The CBOT introduced a similar mortgage-based product a few years later.

"I wasn't blind to the fact...that I would be blazing a brand new trail," Mr. Melamed said in his 1996 memoir, "Escape to the Futures."

For many years, he also owned a seat on the CBOT, CME's fierce crosstown rival. He remained on as special counsel to



Leo Melamed

the CME board and then became chairman of the executive committee until 1991, when he left to start a brokerage business. He returned to the Merc board in 1997 and now is chairman of its powerful steering committee, earning \$300,000 a year, a token amount by Wall Street standards.

Mr. Melamed used his CME posts to push for a merger at times over the past several decades. In 1978 and in the mid-1980s, the two commodities exchanges considered hooking up, he recalled in an interview. But at the time, the Merc was so small that the CBOT made big demands that the Merc couldn't handle, he said. This time, "the stars were aligning," he said. "How could we resist? Both institutions are mature, public, predominantly electronic and doing the same things."

Mr. Melamed was in jovial spirits in his 32nd-story office high above the Merc trading floor in downtown Chicago. Eating a bagel and trading Swiss franc futures, he was interrupted by a telephone call from Sen. Barack Obama, the Illinois Democrat. "You never suspected we'd be the capital of financial markets for the world, did you?" Mr. Melamed told the senator. "Well, we gave you a big present. I'm very proud to have helped make it happen."